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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

EX PARTE

September 12, 1996

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
1919 M Street, N.W. Room 222
Washington, D.C. 20554

RE: In the Matter of Federal-State Joint Board on Universal Service - CC Docket No. 96-45

Dear Mr. Caton,

On Wednesday, September 11, 1996, representatives of Pacific Bell, Sprint Corporation, and US West, Inc. met with members of the Commission's Common Carrier Bureau's Universal Service Branch to discuss the use of proxy cost models in the above referenced proceeding. Sprint and US West are joint sponsors of the Benchmark Cost Model 2, while Pacific Bell developed the Cost Proxy Model. Both models are intended to illustrate proxy costs of the local exchange telephone network for use in the development of the new explicit universal service fund. The attached information was used during the meeting.

The following members of the Commission's Common Carrier Bureau staff participated in the meeting:

Bob Loube	David Krech	Michael Pryor
Pam Szymczak	Bill Sharkey	

Anthony Bush and Doron Fertig of the Commission's Office of General Counsel participated.

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Glenn Brown represented US West and Alan Ciamporcero and Colin Petheram represented Pacific Bell. Jim Sichter, Larry Millard, and the undersigned represented Sprint Corporation.

Sprint, US West and Pacific Bell request that this information be made a part of the record in this matter. Two copies of this letter, in accordance with Section 1.1206(a)(1), is provided for this purpose. This ex parte notice is filed today due to several conflicting meetings of the undersigned on September 11. If there are any questions, please feel free to call.

Sincerely,

/Warren D. Hannah

Warren D. Hannah

Attachment

c: Bob Loube, David Krech, Michael Pryor
Pam Szymczak, Doron Fertig, Anthony Bush
Bill Sharkey
FCC, Washington, D.C.
Glenn Brown, US West, Washington, D.C.
Alan Ciamporcero, Pacific Bell, Washington, D.C.
Jim Sichter, Sprint, Westwood, KS
Larry Millard, Sprint, Westwood, KS
Jay Keithley, Sprint, Washington, D.C.

1. The Interconnection Order has added new complexity and demands on the proposed universal service fund.

- The models which our companies have developed deal only with targeted support to high cost areas.

- The Interconnection order places additional implicit support from access charges and vertical services at risk.

2. A proxy model will be useful in the development of the new explicit universal service fund.

- Support will need to be targeted to small areas of geography.
- Most LECs do not keep cost records below the Study Area level.
- Competition and the new market structures should result in less, not more, regulations.
- A properly structured and documented model will allow public policy makers to review the cost inputs and assumptions once, and apply consistent methodology to all areas of the country.
- Support must be identified and targeted in a competitively neutral manner.
- An administrator should control and run the model in a competitively neutral manner.

3. Support should be targeted to the Census Block Group.

- All wire centers contain low-cost main streets and higher cost peripheral areas.
- Even within wire centers with the highest average costs, many customers cost less than $20 per month to serve.
- Significant implicit support exists within the wire center (low cost city customers to high cost rural customers) which cannot be sustained in a competitive market where high cost funding is portable.
- Targeting to the CBG will assure that funding does not interfere with the evolution of competition in low cost areas where it can be expected to develop first, and that rural customers will have a higher likelihood of having a choice of service providers.

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4. The Benchmark Cost Model 2 and the Cost Proxy Model are both excellent models

- In areas where both models have been run, the results are very close.
- CPM uses a grid-cell location architecture along with serving wire center boundaries which helps to more specifically locate and assign customers, particularly in rural areas.
- BCM2 uses a dynamic design architecture which designs, sizes, tapers and costs the outside plant to meet the unique customer distribution and placement characteristic of each wire center.
- Both models develop average costs at the CBG level.

5. The public interest would be best served by combining the best aspects of both BCM2 and CPM.

6. The Hatfield Model submitted by MCI and AT&T is not reliable or dependable for targeting high cost support.

- Model is poorly documented and difficult to understand and run.
- Source and level of data inputs is not identified.
- Model only produces results by six density zones. This could provide funding to some customers who are not costly to serve, and would severely under-fund very high cost areas.
- Key model assumptions stated by Hatfield appear not to be true - Hatfield does not appear to include BCM input data as stated.

7. In their November decision, the Joint Board should do the following.

- Direct that all prices reflect the cost of providing services and, where this is not possible, that subsidies be explicit and targeted.
- Find that a proxy model is useful for targeting of support.
- Specify the aspects which would define an acceptable high cost targeting model.
    - Process for locating customers.
    - Outside plant design and costing principles.
    - Switch design and costing principles.
    - Standards for documenting model logic and the sources of cost data inputs.
    - Reasonableness tests to assure that model outputs are representative of costs that can be reasonably be expected in the construction of a network, and that the network is capable of providing service which meets service quality standards of state and federal regulators.
- Direct parties to submit cost models which conform the the Joint Board's specifications.